



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

*<http://audgen.michigan.gov>*



# Michigan *Office of the Auditor General* **REPORT SUMMARY**

## *Financial Audit*

*Michigan Early Childhood Investment Corporation*  
*(A Discretely Presented Component Unit of the State of Michigan)*  
*October 1, 2005 through September 30, 2006*

Report Number:  
431-1100-07

Released:  
March 2008

*A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Michigan Early Childhood Investment Corporation (ECIC) was conducted as part of the constitutional responsibility of the Office of the Auditor General.*

### ***Financial Statements:***

#### **Auditor's Report Issued**

We issued an unqualified opinion on ECIC's financial statements.

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#### **Internal Control Over Financial Reporting**

We identified one material weakness in ECIC's internal control over financial reporting (Finding 1).

ECIC did not have effective internal control to help ensure the reliability of its financial reporting and compliance with State laws and grant agreements. We identified internal control weaknesses such as insufficient knowledge related to governmental financial accounting and reporting; missing documents to support expenditures, assets, and liabilities; and insufficient grant management oversight procedures. (Finding 1)

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### **Noncompliance and Other Matters Material to the Financial Statements**

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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### ***Background:***

ECIC was developed as a separate legal entity and public body corporate to ensure that every young child in Michigan has a great start and arrives at the kindergarten door healthy and ready to succeed in school.

ECIC was established through an interlocal agreement pursuant to the Urban Cooperation Act of 1967 between the Department of Human Services (DHS), a principal department of the State of Michigan, and participating intermediate school districts, bodies corporate

established as authorized under Part 7 of the Revised School Code, Act 451, P.A. 1976, as amended. The agreement was approved by the Governor in a letter to the director of DHS dated February 22, 2005.

The interlocal agreement empowered ECIC to implement the powers, privileges, and authority of each of the parties with respect to the subject matter of the agreement, including, but not limited to, the performance of successful, effective, and efficient coordination and delivery of early childhood development and child care programs and functions throughout the State.

ECIC is administered by the 15-member Executive Committee of the Corporation Board.

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***Agency Response:***

Our audit report contains 1 finding and 1 corresponding recommendation. ECIC's preliminary response indicates that it agrees with the recommendation.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

March 12, 2008

Ms. Susan K. Broman, Chair  
Michigan Early Childhood Investment Corporation Board  
and  
Ms. Judy Samelson, Chief Executive Officer  
Michigan Early Childhood Investment Corporation  
221 North Pine  
Lansing, Michigan

Dear Ms. Broman and Ms. Samelson:

This is our report on the financial audit of the Michigan Early Childhood Investment Corporation (ECIC), a discretely presented component unit of the State of Michigan, for the period October 1, 2005 through September 30, 2006.

This report contains our report summary, our independent auditor's report on the financial statements, ECIC management's discussion and analysis, and ECIC financial statements. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters; our finding, recommendation, and agency preliminary response; and a glossary of acronyms and terms.

The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.  
Auditor General



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# INDEPENDENT AUDITOR'S REPORT



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on the Financial Statements

Ms. Susan K. Broman, Chair  
Michigan Early Childhood Investment Corporation Board  
and  
Ms. Judy Samelson, Chief Executive Officer  
Michigan Early Childhood Investment Corporation  
221 North Pine  
Lansing, Michigan

Dear Ms. Broman and Ms. Samelson:

We have audited the accompanying financial statements of the Michigan Early Childhood Investment Corporation, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2006, as identified in the table of contents. These financial statements are the responsibility of the Michigan Early Childhood Investment Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

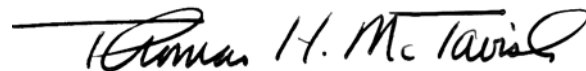
As described in Note 1, the financial statements present only the Michigan Early Childhood Investment Corporation and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2006 and the changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Early Childhood Investment Corporation as of September 30, 2006 and the changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2007 on our consideration of the Michigan Early Childhood Investment Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the left side of the name.

Thomas H. McTavish, C.P.A.  
Auditor General  
December 28, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Michigan Early Childhood Investment Corporation (ECIC) is pleased to present its financial statements. This section contains the analysis of ECIC's financial performance during the period October 1, 2005 through September 30, 2006. Please read it in conjunction with the financial statements and their accompanying notes, which follow this section. ECIC's management is responsible for the financial statements, the notes to the financial statements, and this discussion.

ECIC is a public body corporate and politic of the State of Michigan, separate and distinct from the State, exercising public and essential governmental functions and created by the State. ECIC is a discretely presented governmental type component unit of the State and is governed by the Corporation Board, including the Executive Committee. The governing body of each participating intermediate school district (ISD) is authorized to appoint 1 member to the Corporation Board to serve at the will of the ISD. For each ISD-appointed member, the Governor shall appoint up to 2 members to the Corporation Board that represent the State and serve at the will of the Governor. If there are fewer than 5 ISD participants, the Governor may appoint up to 12 additional members to the Corporation Board that represent the State and serve at the will of the Governor. The Executive Committee consists of 15 members. The members of the Executive Committee include the director of the Department of Human Services (DHS) or his or her designated representative from within DHS and 14 residents of Michigan appointed by the Governor. The members appointed by the Governor include at least one resident representing the participating ISDs.

ECIC was established through an interlocal agreement pursuant to the Urban Cooperation Act of 1967 (Act 7, P.A. 1967 [Ex. Sess.], Sections 124.501 - 124.512 of the *Michigan Compiled Laws*) between DHS, a principal department of the State of Michigan, and participating ISDs, bodies corporate established as authorized under Part 7 of the Revised School Code, Act 451, P.A. 1976, as amended.

The purpose of the interlocal agreement was to create and empower ECIC to implement the powers, privileges, and authority of each of the parties with respect to the subject matter of the agreement, including, but not limited to, the performance of successful, effective, and efficient coordination and delivery of early childhood development and child care programs and functions throughout the State.

### **Using the Financial Report**

This financial report is prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*.

The reporting standards require that governmental type component units provide financial statements prepared on both the accrual basis of accounting (entity-wide financial statements) and the modified accrual basis of accounting (fund level financial statements). The entity-wide financial statements include a statement of net assets and a statement of activities. The fund level financial statements include a fund balance sheet and a statement of revenues, expenditures, and changes in fund balance. The reporting standards allow for combining these statements using a format that reconciles the two statements.

The following narrative and overview of the financial activities of ECIC is for the fiscal year ended September 30, 2006, the first year of operations of ECIC. ECIC encourages readers to consider this information in conjunction with ECIC's financial statements, which follow this section. The basic financial statements provide information about the activities of ECIC as a whole and include all assets and liabilities. They also include notes to the financial statements, which explain some of the information in the basic financial statements in greater detail.

### **Financial Analysis of ECIC**

Because the most recently completed fiscal year was the first year of financial activity for ECIC, there is no historical data for comparison. Accordingly, comparative financial statements are not presented.

The principal activities of ECIC in fiscal year 2005-06 were twofold. One set of activities was focused on improving community approaches to early childhood services through the establishment of community governing bodies called Great Start Collaboratives. In fiscal year 2005-06, ECIC funded 14 Great Start Collaboratives in communities throughout Michigan. ECIC is organized to provide ongoing and comprehensive technical assistance to the Great Start Collaboratives. The second set of activities was focused on improving the quality of child care in Michigan. For example, through contractual relationships, ECIC funded professional development for child care providers, a Statewide system of resources and referral for families with child care needs, and publications to improve the knowledge and skills of child care providers.

Condensed entity-wide financial information as of September 30, 2006 and for the fiscal year then ended is as follows:

	2006
<u>Statement of Net Assets</u>	
Total assets	\$3,049,455
Total liabilities	2,771,932
Net assets:	
Unrestricted	\$ 277,523
Total net assets*	\$ 277,523
<u>Statement of Activities</u>	
Revenues:	
Operating grants	\$9,092,137
Contributions	1,019
Total revenues	\$9,093,156
Expenses:	
Grants and operations	\$8,815,633
Total expenses	\$8,815,633
Excess of revenues over (under) expenses	\$ 277,523
Net assets - Beginning of fiscal year	0
Net assets - Ending of fiscal year	\$ 277,523

- \* All of ECIC's funding supports designated initiatives that are aligned with specific purposes defined by contracts with the State and public agencies. The designated initiatives are not narrower in scope than ECIC's primary purpose and functions. Consequently, ECIC's assets are not restricted.

**Contacting ECIC**

The financial report is designed to present users with a general overview of ECIC's finances and to demonstrate ECIC's accountability for the funds. The contact information for ECIC is:

Michigan Early Childhood Investment Corporation

221 North Pine

Lansing, Michigan 48933

Telephone: (517) 371-9000

Web site: [www.ecic4kids.org](http://www.ecic4kids.org)

Judy Samelson, Chief Executive Officer

Mike Foley, Chief Operating Officer



# FINANCIAL STATEMENTS

**MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION**  
**Statement of Net Assets and Governmental Fund Balance Sheet**  
**As of September 30, 2006**

	Governmental Fund Balance Sheet	Adjustments (Note 4)	Statement of Net Assets
<b>ASSETS</b>			
Current assets:			
Cash (Note 2)	\$ 207,891	\$	\$ 207,891
Amounts due from State government	2,784,801		2,784,801
Other current assets	56,763		56,763
Total current assets	<u>\$ 3,049,455</u>	<u>\$ 0</u>	<u>\$ 3,049,455</u>
 Total assets	 <u>\$ 3,049,455</u>	 <u>\$ 0</u>	 <u>\$ 3,049,455</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other liabilities	\$ 2,704,799	\$ 20,433	\$ 2,725,232
Amounts due to State government	46,700		46,700
Total current liabilities	<u>\$ 2,751,499</u>	<u>\$ 20,433</u>	<u>\$ 2,771,932</u>
 Total liabilities	 <u>\$ 2,751,499</u>	 <u>\$ 20,433</u>	 <u>\$ 2,771,932</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund balance:			
Unreserved	<u>\$ 297,956</u>	\$ (20,433)	
 Total liabilities and fund balance	 <u>\$ 3,049,455</u>		
 Net assets:			
Unrestricted (Note 3)			<u>\$ 277,523</u>
 Total net assets			 <u>\$ 277,523</u>

The accompanying notes are an integral part of the financial statements.

**MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION**

**Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Period October 1, 2005 through September 30, 2006**

	Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	Adjustments (Note 4)	Statement of Activities
<b>REVENUES</b>			
Early childhood services grant	\$ 8,809,137	\$	\$ 8,809,137
Family support services grant	283,000		283,000
Contributions	1,019		1,019
Total revenues	<u>\$ 9,093,156</u>	<u>\$ 0</u>	<u>\$ 9,093,156</u>
<b>EXPENDITURES/EXPENSES</b>			
Early childhood services grant	\$ 8,780,070	\$ 17,202	\$ 8,797,272
Family support services grant	15,130	3,231	18,361
Total expenditures/expenses	<u>\$ 8,795,200</u>	<u>\$ 20,433</u>	<u>\$ 8,815,633</u>
Excess of revenues over (under) expenditures/expenses/changes in net assets	\$ 297,956	\$ (20,433)	\$ 277,523
Fund balance/Net assets - Beginning of fiscal year	<u>0</u>		<u>0</u>
Fund balance/Net assets - Ending of fiscal year	<u>\$ 297,956</u>	<u>\$ (20,433)</u>	<u>\$ 277,523</u>

The accompanying notes are an integral part of the financial statements.

## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

The accounting policies of the Michigan Early Childhood Investment Corporation (ECIC) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

#### a. Reporting Entity

ECIC was established through an interlocal agreement pursuant to the Urban Cooperation Act of 1967 (Act 7, P.A. 1967 [Ex. Sess.], Sections 124.501 - 124.512 of the *Michigan Compiled Laws*) between the Department of Human Services (DHS), a principal department of the State of Michigan, and participating intermediate school districts (ISDs), bodies corporate established as authorized under Part 7 of the Revised School Code, Act 451, P.A. 1976, as amended.

The purpose of the interlocal agreement was to create and empower ECIC to implement the powers, privileges, and authority of each of the parties with respect to the subject matter of the agreement, including, but not limited to, the performance of successful, effective, and efficient coordination and delivery of early childhood development and child care programs and functions throughout the State.

The interlocal agreement creating ECIC was approved by the Governor in a letter to the director of DHS dated February 22, 2005. The approval by the Governor was granted after the agreement was signed by the director of DHS and the ISD branch and was approved by the Acting State Superintendent of Public Instruction as required by Section 11 of the Urban Cooperation Act.

ECIC was developed as a separate legal entity and public body corporate to administer activities related to early childhood development and to implement the objectives and further the purposes set forth in the interlocal agreement. These objectives include ensuring that every young child in Michigan has a great start and arrives at the kindergarten door healthy and ready to succeed in school. Each party to the agreement is a

public agency under the Urban Cooperation Act of 1967 with the power to carry out the activities described in the agreement.

ECIC is governed by the Corporation Board, including the Executive Committee. The governing body of each participating ISD is authorized to appoint 1 member to the Corporation Board to serve at the will of the ISD. For each ISD-appointed member, the Governor shall appoint up to 2 members to the Corporation Board that represent the State and serve at the will of the Governor. If there are fewer than 5 ISD participants, the Governor may appoint up to 12 additional members to the Corporation Board that represent the State and serve at the will of the Governor until there are 5 or more participating ISDs. The Executive Committee consists of 15 members. The members of the Executive Committee include the director of DHS or his or her designated representative from within DHS and 14 residents of Michigan appointed by the Governor, all of whom are also Corporation Board members. The members appointed by the Governor include at least one resident representing the participating ISDs.

b. Financial Statement Presentation

ECIC is a discretely presented component unit of the State of Michigan. Under fund accounting, the accounts of the component units of the State of Michigan are organized on the basis of funds, each of which is considered a separate accounting entity. ECIC's operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Government resources are allocated to and accounted for in separate funds, based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

ECIC is a governmental fund. The accompanying financial statements present only ECIC. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan or its component units in conformity with accounting principles generally accepted in the United States of America.

c. Measurement Focus and Basis of Accounting

The fund level financial statements contained in this report are presented using the current financial resources measurement focus and the modified

accrual basis of accounting as provided by accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

Governmental Accounting Standards Board (GASB) Statement No. 34 requires ECIC to provide financial statements prepared on both the modified accrual basis of accounting (fund level presentation) and the full accrual basis of accounting (entity-wide level presentation). GASB Statement No. 34 also provides for combining these financial statements using a format that reconciles the individual line items of the fund level to the entity-wide level.

d. Financial Data

ECIC's financial statements primarily present the following:

- (1) Revenues: Amounts received from DHS and other restricted revenues.
- (2) Expenditures: DHS pass-through grants, administrative expenditures, and other restricted expenditures for early childhood and family support services in Michigan.

Note 2 Deposits and Investments

a. Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, ECIC's deposits may not be returned to it.

Deposits reflected in ECIC's bank accounts (without recognition of outstanding checks or deposits in transit) as of September 30, 2006 were \$225,616, of which \$125,616 was not covered by federal depository insurance and was uncollateralized and, hence, was exposed to custodial credit risk.

ECIC does not have a policy for limiting custodial credit risk.

b. Investments

No investment activities occurred during the fiscal year.

Note 3 Unrestricted Net Assets

Unrestricted net assets consist of net assets that do not have constraints (narrower in scope than an entity's primary purpose) placed on their use either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Unrestricted net assets often are designated for specific purposes that can be modified. All of ECIC's funding supports designated initiatives that are aligned with specific purposes defined by contracts with the State and public agencies. The designated initiatives are not narrower in scope than ECIC's primary purpose and functions.

Note 4 Reconciliation Between the Fund Level and the Entity-Wide Financial Statements

a. Balance Sheet to Statement of Net Assets

The following is an explanation of the adjustment between the governmental fund balance sheet and the statement of net assets, which reconciles fund balance (fund level) to net assets (entity-wide level):

Fund balance: Fund level	\$ 297,956
Adjustment:	
<b>Compensated absences payable</b> is not recorded at the fund level	(20,433)
	(20,433)
Net Assets: Entity-wide level	\$ 277,523

b. Statement of Revenues, Expenditures, and Changes in Fund Balance to Statement of Activities

The following is an explanation of the adjustment between the governmental fund statement of revenues, expenditures, and changes in fund balance and the statement of activities, which reconciles the net changes in fund balance (fund level) to change in net assets (entity-wide level):

Net change in fund balance: Fund level	\$297,956
Adjustment:	
<b>Compensated absence expenditures</b> are not recorded as expenditures for purposes of net assets	(20,433)
Change in net assets: Entity-wide level	<u><u>\$277,523</u></u>

Note 5 Postemployment Benefits

ECIC does not participate in the State of Michigan defined benefit or defined contribution plans. ECIC's management established a 457(b) defined contribution plan in August 2006 to provide benefits at retirement to its employees. Employer contributions were retroactive to the employees' hire date. As of December 19, 2007, the Corporation Board had not yet formally approved the 457(b) plan. The 457(b) plan is administered by Watkins, Ross & Co. ECIC is required to contribute 4% and match employee contributions up to 3% of an employee's salary. ECIC contributions to the 457(b) plan for fiscal year 2005-06 totaled approximately \$11,000. Employee contributions to the 457(b) plan for fiscal year 2005-06 totaled approximately \$8,000.

Note 6 Differences in Reporting From the SOMCAFR

ECIC's financial statements were adjusted for the fiscal year ended September 30, 2006 from the amount reported in the fiscal year 2005-06 *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* as a result of this audit. Current assets, restricted assets, total liabilities, and expenses decreased and total net assets increased. The Office of Financial Management, Department of Management and Budget, issued a waiver which allows for this different presentation from that reported in the *SOMCAFR*.



Note 7 Subsequent Events

The Council of Michigan Foundation awarded ECIC a \$6.5 million grant for the period October 1, 2006 through September 30, 2009. ECIC was eligible to receive the first year's award of \$2.1 million upon providing the Council confirmation that it has implemented an investment policy. ECIC Executive Committee approved the investment policy on October 10, 2006.



# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Ms. Susan K. Broman, Chair  
Michigan Early Childhood Investment Corporation Board  
and  
Ms. Judy Samelson, Chief Executive Officer  
Michigan Early Childhood Investment Corporation  
221 North Pine  
Lansing, Michigan

Dear Ms. Broman and Ms. Samelson:

We have audited the financial statements of the Michigan Early Childhood Investment Corporation, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2006, as identified in the table of contents, and have issued our report thereon dated December 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Early Childhood Investment Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Michigan Early Childhood Investment Corporation's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Finding 1.

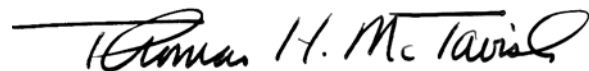
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition identified in the previous paragraph to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan Early Childhood Investment Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Michigan Early Childhood Investment Corporation Board and management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the left side of the name.

Thomas H. McTavish, C.P.A.  
Auditor General  
December 28, 2007

FINDING, RECOMMENDATION,  
AND AGENCY PRELIMINARY RESPONSE

## **FINDING**

### **1. Internal Control**

The Michigan Early Childhood Investment Corporation (ECIC) did not have effective internal control\* to help ensure the reliability of its financial reporting and compliance with State laws and grant agreements. Ineffective internal control can cause inaccuracies in ECIC's financial reporting of its operations, affect its financial presentation in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*, impair the extent to which the users of its financial statements can rely on the information presented, and negatively affect ECIC's receipt of future grant awards.

Internal control is a process designed to provide reasonable assurance regarding the achievement of reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Section 18.1485 of the *Michigan Compiled Laws* requires ECIC to establish and maintain an internal accounting and administrative control system that includes a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; qualified personnel that maintain a level of competence; and internal control techniques that are effective and efficient.

Although ECIC corrected errors affecting the financial presentation of its operations when brought to its attention, our audit disclosed many internal control weaknesses normally associated with a small start-up organization. We identified internal control weaknesses such as:

- Insufficient knowledge related to governmental financial accounting and reporting.
- Missing documents to support expenditures, assets, and liabilities.
- Insufficient grant management oversight procedures.

ECIC had recognized the need for assistance in developing effective and efficient internal control during the audit. ECIC hired a public accounting firm

\* See glossary at end of report for definition.

with experience in governmental entities to review its financial policies, procedures, and controls. In addition, ECIC hired the same accounting firm to maintain its accounting records.

### **RECOMMENDATION**

We recommend that ECIC implement effective internal control to help ensure the reliability of its financial reporting and compliance with State laws and grant agreements.

### **AGENCY PRELIMINARY RESPONSE**

ECIC agrees with the recommendation. ECIC informed us that it recognizes the need for appropriate internal control and is committed to a high quality internal control system that is continually monitored to ensure that it meets the needs of the organization. ECIC informed us that it immediately incorporated many of the recommendations from the public accounting firm's analysis into its day-to-day operations. ECIC indicated that it also used the analysis as a basis to establish a formal policies and procedures manual for the organization. ECIC informed us that it plans to establish an Administrative Division within the organization in fiscal year 2007-08. ECIC indicated that the Division will be led by a chief administrative officer with the staff support necessary to ensure efficient and effective internal control and fiscal management.



# GLOSSARY

## Glossary of Acronyms and Terms

DHS	Department of Human Services.
ECIC	Michigan Early Childhood Investment Corporation.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
ISD	intermediate school district.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.
unqualified opinion	An auditor's opinion in which the auditor states that the financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.









